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Accounting and Information  
Management Division

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August 21, 1997

The Honorable Alice C. Maroni  
Acting Under Secretary of Defense (Comptroller)

The Honorable Robert F. Hale  
Assistant Secretary of the Air Force  
Financial Management and Comptroller

Subject: Financial Management: Air Force Budget Request Could Be  
Enhanced With More Complete Aircraft Data

As part of our efforts to review implementation of the Chief Financial Officers (CFO) Act,<sup>1</sup> we compared aircraft quantity data contained in the logistical/financial system used by the Air Force for financial statement presentation with the number of aircraft displayed in the historical data in the supporting documents accompanying Air Force's budget submission. The CFO Act charged agency CFOs with monitoring the execution of the agency budget and better linking budget and financial information. Our objective was to determine the relationship between the number of aircraft reported in the systems used to produce financial statements and the number of aircraft included in annual budget support documents.

There are significant differences between aircraft quantities disclosed in budget support documents and those used to produce financial statements. As you know, the Air Force uses its Reliability and Maintainability Information System (REMIS), a mixed system,<sup>2</sup> to develop the financial information on aircraft reported in the financial statements. In reviewing these data, we found that the number of active aircraft in REMIS was substantially more than the aircraft

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<sup>1</sup>This responsibility to audit the consolidated financial statements of the United States government was mandated by the Chief Financial Officers (CFO) Act as expanded by the Government Management Reform Act (GMRA) of 1994.

<sup>2</sup>The Federal Financial Management Improvement Act of 1996 defines a mixed system as an information system that supports both financial and nonfinancial functions of the federal government or components thereof.

disclosed in the budget submission. REMIS showed that the Air Force had a total active inventory of about 6,000 aircraft as of May 1997. In its budget submission for fiscal year 1997, the Air Force requested funds to operate and maintain about 5,000 aircraft. Accounting standards require that financial statements include information on all active aircraft. The budget submission discloses what the Department of Defense (DOD) terms primary aircraft.<sup>3</sup> Historical and future years' data shown in the fiscal year 1998 budget support documents also used primary aircraft as the principal basis for the Air Force's flying hour program.

Air Force officials stated that budget documents have historically disclosed only quantities for primary aircraft, because those quantities more directly relate to other important information, such as personnel levels and readiness, which affect the Air Force's flying hour program. At the same time, as we have previously reported, there are costs associated with operating and maintaining backup and attrition aircraft.<sup>4</sup>

Complete aircraft information is important to the Congress as it determines the level of funding to provide through budget deliberations. In its report on the National Defense Authorization Act for fiscal year 1997 (104-267), the Senate Committee on Armed Services directed that additional quantity data on aircraft categories be included in budget submissions. The report noted that information on total overall aircraft quantities, to include detailed information concerning categories of active aircraft, such as backup and attrition, would be a useful addition to budget documentation. The Air Force could better link budget and financial information—an objective of the CFO Act—and improve the completeness and utility of Congressional budget justification documents, as called for by the Senate Committee on Armed Services, if actual active aircraft numbers for past years and projected active aircraft for future years were also disclosed in the budget documents. This information is readily available to the Air Force in the same databases that currently are used to produce the financial statements and budget documents.

We performed our work at the Pentagon in Washington, D.C., and at Laughlin Air Force Base, Texas; Nellis Air Force Base, Nevada; and Edwards Air Force Base, California. We interviewed personnel involved with Air Force budgetary

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<sup>3</sup>"Primary Aircraft" is a DOD inventory designation used in budget documents that excludes categories of active aircraft known as backup and attrition aircraft (discussed in "Background" section).

<sup>4</sup>Aircraft Requirements: Air Force and Navy Need To Establish Realistic Criteria for Backup Aircraft (GAO/NSIAD-95-180, September 29, 1995).

and logistical systems, and analyzed databases obtained from those systems. We developed the information in this letter as part of our work related to analyzing the Air Force's budgetary and logistical systems and budget support documents from August 1996 through May 1997. Our work was performed in accordance with generally accepted government auditing standards. DOD provided written comments on a draft of this letter. These comments are presented and evaluated in the "Agency Comments and Our Evaluation" section and are reprinted in enclosure I.

### BACKGROUND

The Air Force uses REMIS to obtain aircraft quantity data to support financial reporting and budget development. REMIS is the approved source for weapon system data to support reports to the Department of Defense and the Congress. It is a central, common source of all unclassified maintenance and logistics information for Air Force weapon systems. For each active or inactive aircraft, it is to provide up-to-date information on type/model/series, serial number, equipment location, configuration, utilization, and availability. It also is to include each individual aircraft's assigned purpose. Active assignment categories include mission,<sup>5</sup> training, and testing; inactive categories include bailment,<sup>6</sup> loan, and storage. An aircraft's information is to be entered into the system upon delivery by the contractor. The system is to be updated when an aircraft is operated, maintained, or transferred between bases. An aircraft is to be removed from the system upon being taken out of service.

The Future Years Defense Program (FYDP) is the program and financial plan for the Department of Defense. The FYDP arrays cost and force structure over at least a 6-year period, including historical, budget, and program years. For Congressional budget deliberations, DOD submits the FYDP and exhibits required by volume 2 of the Department of Defense Financial Management Regulation. The FYDP discloses an authorized level of primary aircraft. The number of aircraft actually assigned to a unit includes primary aircraft as well as additional quantities of aircraft referred to as backup and attrition reserve. "Backup" aircraft are aircraft over and above primary aircraft, to permit depot-level maintenance, other scheduled or unscheduled maintenance, modification, inspection, and repair, without reducing the number of aircraft available for a unit's mission. "Attrition reserve" are aircraft above the primary and backup

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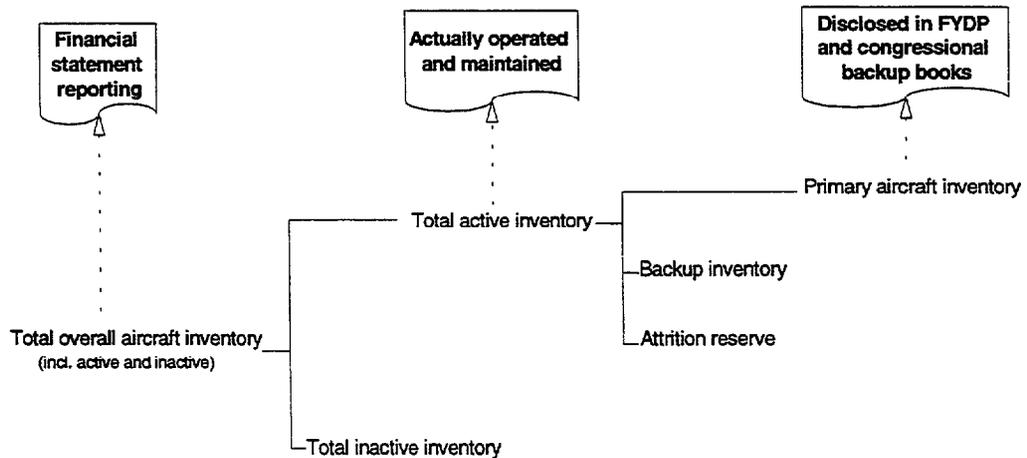
<sup>5</sup>Aircraft assigned for combat, combat support, and industrial fund airlift purposes.

<sup>6</sup>Aircraft provided to contractors as government furnished property (GFP) in support of a government contract.

aircraft that were procured to ensure that the authorized inventory of aircraft can be met upon damage or loss of an aircraft. The combining of all assigned aircraft make up the "total active inventory." REMIS aircraft data are used to support financial statement reporting. The Defense Finance and Accounting Service (DFAS)-Denver, which has principal responsibility for preparing the Air Force's financial statements, includes both active and inactive aircraft data from REMIS in financial statement reporting. The Air Force also uses REMIS as its source of aircraft quantity data for preparation of budget submissions. REMIS data are provided monthly to the Air Force Programming Data System. This system summarizes programmed Air Force inventory by type/model/series as well as by program element, command, and active or inactive assignment categories. It also provides subcategories for primary, backup, and attrition reserve aircraft for each assignment category (mission, training, testing and other) within the total active aircraft inventory. This system also contains flying hours for each year of the FYDP by type/model/series, program element, and command. However, this system and budget submission documents allocate flying hours to primary authorized aircraft. The Programming Data System and two other systems make up the Planning, Programming and Budgeting System. The Air Force uses this system to develop its portion of the FYDP.

Figure 1 illustrates the reporting of aircraft quantities.

Figure 1: Reporting of Aircraft Quantities



MORE COMPLETE DATA COULD ENHANCE BUDGET REQUEST

The Air Force generally operates and maintains all of its active aircraft without making operational distinctions between primary, backup, and attrition aircraft. However, because its budget support documents only include primary aircraft quantities, Air Force budget support documents do not disclose to the Congress the total numbers of active aircraft that will actually be maintained. Air Force officials told us that the primary aircraft quantities have historically been reported because they more directly relate to mission requirements, including personnel levels and flying hours. The Air Force, in calculating its operation and maintenance (O&M) budget request, applies a rate per flying hour that includes the costs of operating and maintaining backup and attrition aircraft, even though it does not identify in the budget supporting documents quantities of backup and attrition aircraft.

Although in its budget submission, the Air Force associates flying hours with primary aircraft quantities, all active aircraft are generally flown and maintained. Operationally, individual aircraft cannot be identified as primary, backup, and attrition reserve on the flight line. While backup and attrition aircraft do not change the number of flying hours needed to meet mission requirements, the flying hour operation and maintenance funds are actually used to maintain the total active inventory of aircraft. In its 1997 FYDP and budget submission, for example, the Air Force identified about 5,000 primary aircraft, while it actually operated and maintained about 6,000 aircraft.

Total numbers of active aircraft, including numbers of backup and attrition aircraft are important information for the Congress in considering Air Force aircraft O&M budget requests. In September 1995, GAO, reporting on the need for the Air Force and Navy to establish more realistic criteria for backup and attrition aircraft,<sup>7</sup> concluded that operation and maintenance costs could be reduced by storing attrition aircraft in excess of short-term needs.

In its report on the National Defense Authorization Act for fiscal year 1997, the Senate Committee on Armed Services directed that additional quantity data on aircraft categories be reported. The report noted that information on total overall aircraft quantities, to include detailed information concerning categories of active aircraft, such as backup and attrition, as well as categories of inactive aircraft, would be a useful addition to budget documentation. The Committee report also noted that such information could help streamline the budget review

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<sup>7</sup>Aircraft Requirements: Air Force and Navy Need to Establish Realistic Criteria for Backup Aircraft (GAO/NSIAD-95-180, September 29, 1995).

process and reduce the amount of time that is now wasted in reviewing the budget by people at all levels manually collating data from different sources.

Relating budget support documents to financial information contained in agency logistical/financial systems would better achieve the objectives of the CFO Act. For example, historical information on aircraft quantities shown in budget support documents could be better related to information used to produce a year's financial statements if the budget documents included all active aircraft quantities. Specifically, the fiscal year 1997 budget support documents, which were submitted in March 1996, include the fiscal year 1995 historical data that relate to the active aircraft quantities used to support the September 30, 1995, financial statements. They did not completely relate because, while accounting standards require that financial statements fully disclose all amounts, the budget documents display primary aircraft quantities. The same format was used for the fiscal year 1998 budget support documents.

### CONCLUSIONS

Budget documentation would be more informative if it included aircraft data on the total quantities to be operated and maintained with the requested funds along with its presentations of primary aircraft. Further, linkage between financial reports and the budget, as envisioned by the CFO Act, would enhance the usefulness and quality of the data considered in budget deliberations, because numbers representing the previous fiscal year's budget execution and supporting the financial statements would be subject to the rigor of annual financial audit.

### RECOMMENDATIONS

We recommend that the Under Secretary of Defense (Comptroller) prepare and include new aircraft budget data exhibits—with the annual submission of documents supporting budget requests to appropriate Senate and House Committees—that display total active aircraft quantities for the previous fiscal year-end for active forces, as well as national guard and reserve components, for each aircraft type/model/series, including categories for mission aircraft, training aircraft, dedicated test aircraft, and other aircraft (with appropriate subcategories for primary, backup, and attrition reserve).

We also recommend that the Under Secretary of Defense (Comptroller) improve the disclosure of aircraft quantities in future annual budget submissions by modifying the format of FYDP documents, as well as aircraft budget data exhibits required by volume 2 of the Department of Defense Financial Management Regulation, to include total numbers of active aircraft along with

any presentations of primary aircraft quantities presented in FYDP documents or congressional backup books.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on a draft of this report (see enclosure I), the Department of Defense concurred with our recommendation to prepare new aircraft budget data exhibits displaying total active aircraft quantities. DOD did not concur with our recommendation to modify formats for budget submissions and the FYDP to include total active aircraft data. DOD stated that the number of backup and attrition reserve aircraft do not drive funding and will not clarify the budget request. Also, the Department asserted that adding total active aircraft quantities would increase the preparation and review time, add little or no value, and introduce extraneous information that will be misleading. DOD added that the aircraft data to be provided to the Congress under our first recommendation will display the total inventory of aircraft.

We continue to believe that DOD should implement our second recommendation for several reasons. First, concerning the benefits of the additional disclosure, DOD stated that providing data on backup and attrition aircraft will not clarify the budget request but introduce extraneous information that will be misleading. DOD stated that mission requirements drive the number of flying hours and therefore funding and that current budget exhibits display the number of primary aircraft which are needed to meet mission requirements. While we agree with DOD that primary aircraft authorization levels should be displayed and represent a measure of those forces needed to meet mission requirements, operation and maintenance funds are used to support all active aircraft—primary, backup, and attrition. Including backup and attrition aircraft quantities would provide a more representative measure of those resources actually used to execute flying hours. This type of enhanced information could be useful to the Congress, especially in determining the appropriate level of O&M funding to support the flying hours needed with the fewest aircraft necessary to meet mission requirements.

In addition, we believe value is added to budget exhibits if they include total active aircraft quantities. Including this data would provide visibility of backup and attrition aircraft that are currently not displayed in these exhibits. These additional active aircraft are flown and supported with operation and maintenance funds, but are not included in the quantities currently displayed in budget support documents. DOD routinely discloses changes in primary aircraft levels, but does not show how these changes might affect the number of backup and attrition aircraft. Implementation of our recommendation would show whether changes in the number of primary aircraft quantities also affected the number of backup or attrition aircraft.

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Second, regarding the additional effort involved, the Air Force maintains an aircraft database that already includes total active aircraft quantities for historical, budget, and program years, along with subcategories for primary, backup, and attrition quantities. Because Air Force program officials review and update these data in the normal course of preparing their budget, including them should not unreasonably increase preparation and review time.

Lastly, DOD stated that implementing our first recommendation would provide the total aircraft inventory. Our first recommendation contemplated a "point in time" display of active aircraft. Our second recommendation to display total active inventory in existing budget exhibits is intended to provide decisionmakers visibility of the services' past and future force structure, including the number of aircraft actually assigned, operated, and maintained. Budget support documents generally cover historical, execution, and budget years, while the FYDP includes data on programmed force levels for additional future years. Each of these documents should be as complete as possible to facilitate congressional review.

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This report contains recommendations to you. Within 60 days of the date of this letter, we would appreciate receiving your written statement on actions taken to address these recommendations.

We are sending copies of this letter to the Chairmen and Ranking Minority Members of the Senate Committee on Armed Services, the House Committee on National Security, the Senate Committee on Appropriations, the House Committee on Appropriations, and the Director of the Office of Management and Budget. Copies will be made available to others upon request.

Please contact me at (202) 512-9095 if you or your staff have any questions concerning this letter. Cleggett Funkhouser, Harold Reich, West Coile, and Iris Tao were major contributors to this letter.



Lisa G. Jacobson  
Director, Defense Audits

Enclosure

ENCLOSURE

ENCLOSURE

COMMENTS FROM THE DEPARTMENT OF DEFENSE



COMPTROLLER

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JUL 31 1997

Mr. Gene L. Dodaro  
Assistant Comptroller General  
Accounting and Information  
Management Division  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Dodaro:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report "FINANCIAL MANAGEMENT: Air Force Budget Request Could Be Enhanced With More Complete Aircraft Data," dated July 8, 1997 (GAO Code 918879/OSD Case 1404). The Department partially concurs with the draft report.

The budget documents submitted by the Department use work load data to support the funding levels requested. Primary aircraft inventory is one of the basic building blocks to determine the personnel and number of flying hours required. The Department is using the most meaningful data to relate aircraft to required funding levels. Therefore, we do not believe that there is any value added to programming and budgeting documents by including total active aircraft inventory wherever primary active aircraft are shown. We do agree to submit a separate exhibit displaying total active inventory.

Our detailed comments are enclosed. The Department appreciates the opportunity to respond to the draft report.

Alice C. Maroni  
Acting Under Secretary of Defense  
(Comptroller)

Enclosure

GAO DRAFT REPORT – DATED JULY 8, 1997  
OSD CASE 1404, GAO CODE 918879

“FINANCIAL MANAGEMENT” AIR FORCE BUDGET REQUEST COULD BE  
ENHANCED WITH MORE COMPLETE AIRCRAFT DATA”

DEPARTMENT OF DEFENSE COMMENTS ON  
THE GAO RECOMMENDATIONS

**RECOMMENDATION 1:** The GAO recommended that the Under Secretary of Defense (Comptroller) prepare and include new aircraft budget data exhibits, with the annual submission of committee staff budget backup books to DoD’s Senate and House Authorization and Appropriation Committees, that display total active aircraft quantities for active forces, Guard, and Reserve, for each aircraft type/model/series, including categories for mission aircraft, training aircraft, dedicated test aircraft, and other aircraft (with appropriate subcategories for primary, backup, and attrition reserve). (p. 8/GAO Draft Report)

**DOD RESPONSE:** Concur. The Department will provide separate exhibits to display total aircraft quantities.

**RECOMMENDATION 2:** The GAO recommended that the Under Secretary of Defense (Comptroller) improve the disclosure of aircraft quantities in future annual budget submissions by modifying the format of Future Years Defense Program (FYDP) documents, as well as aircraft budget data exhibits required by Volume 2 of the DoD Financial Management Regulation to include total numbers of active aircraft along with any presentations of primary aircraft quantities presented in FYDP documents or congressional backup books. (p. 8/GAO Draft Report)

**DOD RESPONSE:** Nonconcur. Displaying total aircraft in every budget exhibit now containing primary aircraft quantities will increase the time to prepare and review the President’s budget and adds little or no value. The primary aircraft inventory is only one of the building blocks for developing budgetary requirements. The Department budgets for the number of flying hours needed to meet mission requirements. Squadrons are sized and manned to meet the mission requirements based on primary aircraft. Mission requirements drive the number of flying hours and, therefore, funding. Backup aircraft are procured to ensure that the Department can meet the requirement for primary aircraft and accommodate those aircraft that are unavailable due to maintenance cycles, breakdowns, crashes, etc. However, backup aircraft do not change the number of flying hours required. Therefore, the addition of backup and attrition reserve aircraft will not clarify the budget request but introduce extraneous information that will be misleading.

The aircraft data to be provided to Congress under recommendation 1 will display the total inventory of aircraft.

The Department also nonconcur with the recommendation to include total aircraft inventory in the FYDP. The FYDP is a planning tool which records decisions during the Planning, Programming, Budgeting System process. Inclusion or exclusion of certain data types are determined by, and must be consistent with, current DoD programming needs. The FYDP records those aircraft needed for operations and the O&M resources necessary to support those aircraft.

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